Video Conference (English Transcription)
Earnings Release 2Q24
Vulcabras (VULC3)
August 07th, 2024

Operator: Good morning ladies and gentlemen. Welcome to the Vulcabras Video Conference to discuss the results for 2Q24.

I would like to go through some instructions before starting.

This Video Conference will be held exclusively in Portuguese. The transcript of the event in English will later be made available on the Company's IR website. The video and presentation of this Video Conference will be published on the Company's website www.vulcabrasri.com and on the CVM after the market closes.

Please be advised that all participants will only be listening to the Video Conference during the presentation and then We will start the Q&A session when further instructions will be provided.

Please be advised that forecasts about future events are subject to risks and uncertainties that could cause such expectations not to materialize or to differ from expectations. These forecasts express an opinion only on the date they are made and the Company does not undertake to update them.

Present with us today are Mr. Pedro Bartelle CEO and Wagner Dantas, CFO and Investor Relations Officer.

Now we are going to watch an institutional video and in the sequence we return with Mr. Pedro Bartelle

Click here and select ***2T24 Videoconferência***

Mr. Pedro Bartelle

Growing for the 16th consecutive quarter, Vulcabras overcomes challenges and consistently releases yet another robust result.

The challenges faced throughout this quarter were not few. In addition to maintaining a challenging economic scenario, where consumption remained subdued, and the impacts related to the taxation of subsidies for investments faced throughout the first half, in the second quarter we also had to face the unexpected tragedy in Rio Grande do Sul caused by floods.

In solidarity with the situation, Vulcabras promptly provided all possible support to employees, customers, associations and entities in various locations across the state. We remain committed and supporting our customers and the society of Rio Grande do Sul in this recovery process, which unfortunately will not be short-term.

Despite the challenges, Vulcabras achieved Net Operating Revenue of R$ 761 million, an increase of 5.1% compared to 2Q23. The Gross Margin in the quarter was 42.5%, (an increase of 1.1 p.p. versus 2Q23). Recurring EBITDA was R$ 175.4 million, an increase of 4.0% versus R$ 168.7 million in 2Q23, with a Recurring EBITDA Margin of 23.0%. Recurring Net Profit reached R$ 139.7 million, a growth of 4.4% with a Recurring Net Margin of 18.4%.

Footwear division grows across all brands and drives growth

Net revenue from the Athletic Footwear category was R$ 644.6 million, growth of 6.0% in 2Q24 versus 2Q23, corresponding to 84% of the Company's total revenue.

Olympikus continues to expand strongly, with growth in average price driven by Corre Family products, which democratizes high performance with innovations and technology 100% made in Brazil. This quarter, the Corre Supra, the super shoe made in Brazil, won 12 podiums in its official debut at the São Paulo International Marathon. With the QU4DRA BR1, shoes co-created with the Brazilian volleyball team's setter, Bruninho, the brand returns to the volleyball courts, and is present on the athlete's feet during this year's Olympics.

Mizuno expands its presence in high-performance running with the launch of Mizuno Neo Vista, a new category of shoes (Super Trainers) that brings a combination of technologies of Supershoes into a product for speed training.

Under Armour, continues to expand its presence in basketball and training. Three new drops from the Curry Brand Line and UA Wish expand the brand's presence on the courts. In training, the UA Tribase Lift continues to gain space inside and outside gyms.

E-commerce grows 72.9%

With a complementary strategy to other channels, offering a broader collection, especially in clothing and accessories, Vulcabras' e-commerce maintains its accelerated expansion trend, jumping from R$ 57.1 million to R$ 98.7 million in 2Q24, growth of 72.9%. As a percentage of revenue, it represented 13.0% of the Company's total net revenue, growing 5.1 p.p. compared to 2Q23.

Return to shareholders – dividends, buybacks of shares and capital structure

In addition to the results above, based on the resilience and solidity of our cash generation, we announced the payment of monthly dividends to provide predictability in the remuneration of our shareholders. R$ 0.125 per share will be paid every month, totaling R$ 1.50 per share annually.

This dividend, considering the share value of approximately 15 reais, corresponds to a dividend yield of more than 10% p.p., placing Vulcabras as a major dividend payer and one of the highest dividend yields in the sector and on the Brazilian stock exchange.

Furthermore, Vulcabras repurchased 1,223.0 million shares in the second quarter of 2024, which, added to the shares acquired in previous periods and the 467.0 thousand shares acquired in July, total 2,456,244 million shares, reaching close to the mark of 1% of the Company's total outstanding shares and close to half of the approved buyback plan. For this reason, our board is also approving an increase in the buyback plan to 10 million shares.

The Company's management understands that the current share price levels are not consistent with the company's solid fundamentals. Vulcabras has shown sustainable revenue growth, increasing margins, the highest ROIC in the sector and yet trades at the lowest multiple in relation to its comparables.

To cite a metric, the price/earnings (P/E), considering the last 12 months, was during the month of June very close to 8x, allowing us to invest in our own shares that we believe achieves the return levels required by the Company.

Although the dividend and buyback amounts are quite significant, they do not compromise our objective of maintaining an unleveraged balance sheet. Vulcabras will seek to maintain net debt close to zero in the long term, with this indicator being able to fluctuate in the short term, depending on opportunities and market conditions. The distribution value to shareholders does not compromise the Company's search for growth, whether organic or inorganic. It is important to emphasize that our current cash generation is higher than the monthly dividend and if there are no investment opportunities that satisfy our required level of return, the Company must even make extraordinary dividend payments. We will remain alert and ready for opportunities that meet our return criteria.

Vulcabras will continue to consolidate its business model, exploring its organic and inorganic growth avenues, with solid financial foundations and a very clear vision, always seeking to maximize shareholder returns through intelligent and efficient capital allocation.

We will begin the discussion of the results by commenting on the GROSS VOLUME, information about which is available on slide 5 of the presentation.

In 2Q24, the gross volume invoiced reached 8.2 million pairs/pieces, reflecting a drop of 1.5% compared to 2Q23.

Breaking down by categories, Athletic Footwear recorded a decline of 2.2% in 2Q24 compared to the volume sold in 2Q23. The volume decrease is justified by the sharp contraction observed in the foreign market. In the domestic market, the volume of athletic footwear continues to grow, recording a 1.5% increase this quarter.

Other Footwear and Others presented a reduction of 10.4% compared to 2Q23, with declines in both the flip-flop category and professional boots.

Apparel & Accessories recorded growth of 8.9% in 2Q24 when compared to the volume recorded in 2Q23. The growth of this category was predominantly due to the increased penetration of online sales, in contrast to a still very restrictive retail environment with many distribution limitations.

In 6M24, gross volume totaled 14.9 million pairs/pieces, a decrease of 0.5% compared to the 6M23.

Moving on to slide 6, we will comment on Net Revenue by product categories.

In 2Q24, the Company faced a very challenging quarter from the start. In the domestic market, retail remained sluggish and still promotional, being significantly affected by the tragedy that struck the state of Rio Grande do Sul. In the foreign market, sales recorded another quarter of negative performance, influenced by declines in sales to Argentina and Peru.

Even in the face of difficulties, the Company's revenue reached the mark of R$ 761.0 million, presenting a growth of 5.1% compared to the same period in the previous year. The Company's net revenue was negatively impacted by R$ 8.2 million, (0.9% of the Gross Revenue) due to the Pis/Cofins taxation on the ICMS subsidy recognized for the period.

This was the 16th quarter with consecutive revenue growth, achieving positive performance across all its sports brands, thus reinforcing the solid pace of sales expansion and highlighting Vulcabras' resilience in facing market adversities.

For comparison purposes, if the effect of Pis/Cofins taxation on the ICMS subsidy in 2Q24 was excluded, the net revenue obtained would be R$ 769.2 million, a growth of 6.3% over 2Q23 revenue.

The Athletic Footwear category recorded an increase of 6.0% in 2Q24 compared to the same period of the previous year. This growth in revenue is due to the increase in sales of the three brands, driven by growth in the domestic market and partially overshadowed by the reduction in sales in the foreign market.

The Other Footwear and Others category decreased by 2.6% over 2Q23. The decline in revenue in this category was caused by the drop in the professional boots category, mitigated by the revenue growth in the flip-flops category.

The Apparel and Accessories category presented an increase of 3.1% over 2Q23. The category continues to face a challenging retail scenario, especially in specialized distribution. The growth of this category was predominantly due to the greater penetration of online sales.

In 6M24, net revenue resulted in R$ 1,358.3 million, 4.9% higher than the revenue recorded in 6M23.

Moving on to slide 7, we have the breakdown of net revenue by market.

In 2Q24, in the domestic market, net revenue of R$ 723.5 million was recorded, representing an increase of 8.6% compared to the same period of the previous year.

The Company's three brands recorded growth in the domestic market compared to the same period of 2023. During this quarter, athletic footwear, apparel, and accessories were the positive highlights, presenting growth in both volume and revenue, which was partially reduced by the decline in the professional boots category.

In the foreign market, net revenue for 2Q24 reached R$ 37.5 million, a significant reduction of 35.0% compared to R$ 57.7 million recorded in 2Q23.

The athletic footwear category suffered a strong impact on their revenues due to the decline in sales to Argentina, which is the Company's main export destination. Difficulties in domestic consumption and restrictions on remitting dollars abroad mean that the volume of business with Argentina remains far from its full potential.

At the subsidiary in Peru, during 2Q24, a reduction in revenue was also observed compared to the same period of the previous year. This reflects the persistence of macroeconomic difficulties that impact economic activity in that country.

Moving on to the next slide, on Slide 8 we have information related to e-commerce

In yet another quarter, the digital channel showed significant growth, with a complementary strategy to other channels, offering a broader collection of Apparel and accessories, maintained its trend of accelerated expansion.

Net revenue recorded in the quarter was R$ 98.7 million, an increase of 72.9% compared to the same period of the previous year. Digital sales represented 13.0% of the Company's total net revenue, growing 5.1 p.p. compared to the share recorded in 2Q23

In 6M24, e-commerce net revenue reached R$ 175.7 million, showing a growth of 62.8% compared to 6M23 and accounting for 12.9% of the Company's total net revenue.

Moving on to slide 9, we have Gross Profit and Gross Margin

Gross profit in 2Q24, reached the mark of R$ 323.6 million, an increase of 8.0% compared to the same period of 2023. The gross margin reached 42.5% in 2Q24, reflecting an expansion of 1.1 percentage points compared to the 2Q23. It is worth noting that this performance was achieved despite the gross margin being impacted by the effects of Law No. 14,789/23 (Provisional Measure 1185), which, among other measures, addresses the taxation of PIS/COFINS on ICMS subsidies.

For the 14th consecutive quarter, the Company recorded an expansion in its gross margin. The 1.1 p.p. gain achieved in 2Q24 demonstrates the stability and resilience of the Company's business model.

For comparison purposes, if the effect of Pis/Cofins taxation on the ICMS subsidy in 2Q24 was excluded, the gross profit obtained would be R$ 331.8 million, with a gross margin of 43.1%.

The main factors that contributed to this gain in gross margin in 2Q24 were the Expansion of the product portfolio across all brands and the greater share of sales from Direct to Consumer channels that have higher gross margins.

In 6M24, gross profit was R$ 563.5 million, an increase of 7.3% compared to 6M23. The Margin reached 41.5%, 1.0 p.p. higher than that obtained in the same period of the previous year.

Moving on to Slide 10, we will demonstrate expenses related to sales

Selling, advertising and allowance for doubtful accounts expenses in 2Q24 totaled R$ 136.9 million, an increase of 15.1% compared to the same period of 2023.

Direct expenses linked to sales and allowance for doubtful accounts, excluding those related to advertising, totaled R$ 96.9 million, recording an increase of 15.6% when compared to the same period of the previous year.

During 2Q24, we noticed the continuation of the same trend identified in previous quarters, where certain variable sales expenses increased their proportion in relation to revenue, mainly due to changes in shares between channels. The increase in the proportion of sales made through e-commerce, with a significant portion of these sales occurring through marketplaces, resulted in an increase in commission and shipping expenses. The exception was the line item "Allowance for doubtful accounts", which presented a reversal of allowance in the total amount of R$ 0.8 million due to a change in the expected loss in the accounting receivable in the Foreign Market (Argentina)

In 6M24, selling expenses (excluding advertising expenses) totaled R$ 180.1 million, an increase of 10.4% compared to the 6M23. The share of selling expenses over net revenue increased by 0.7 percentage points, reaching 13.3% in 6M24.

On Slide 11 we have a statement of Advertising and Marketing expenses

In 2Q24, advertising and marketing expenses totaled R$ 40.0 million, an increase of 14.0% compared to the 2Q23.

In relation to net revenue, advertising and marketing expenses represented 5.3% in 2Q24, an increase of 0.5 p.p. compared to the share observed in 2Q23.

In 2Q24, Olympikus continued its strong expansion in the running category, achieving an increase in the average price due to the success of the Corre Family. Olympikus remains dedicated to democratizing high performance and sports with innovations and technologies 100% made in Brazil.

In April, the Supra, Brazil's first Super Shoes, was launched. In its official debut at the São Paulo International Marathon in April, the Supra claimed 1st place in the 42 km, 21 km, and 10 km races. Overall, the Supra secured 12 podium finishes with its five national and seven international athletes.

Furthering the mission to promote and democratize access to high performance in Brazil, June marked Olympikus' return to the volleyball courts with the QU4DRA BR1. These shoes, co-created with volleyball player Bruno Rezende, involved him in every stage of the open innovation and testing process to produce a model that delivers technology, comfort, propulsion, and design.

Mizuno continued to expand its presence and leadership in the high-performance running segment with the launch of the Neo Vista. This new product category, called Super trainer, incorporates the same technologies as the Super Shoes, tailored for speed training, showcasing the brand's innovation potential.

Under Armour consolidates its leadership in the training market in Brazil, driven by the success of the TriBase line. The brand remained a protagonist in the training category, with emphasis on the footwear division.

Moving on to Slide 12, where we will discuss General and Administrative Expenses

In 2Q24, general and administrative expenses totaled R$ 42.7 million, an increase of 9.8%, representing 5.6% of net revenue, an increase of 0.2 percentage points over the 2Q23.

The main variations occurred in IT and telecommunications expenses, due to increases in the e-commerce platform, and in personnel expenses, due to the transfer of collective agreements.

In 6M24, general and administrative expenses reached R$ 80.2 million, an increase of 12.5% compared to the same period in 2023, as a percentage of net revenue, there was an increase of 0.4 p.p. in relation to the equivalent 2023 period.

Moving now to Slide 13, we will discuss the Financial Result and Net Debt

In 2Q24, the net financial result recorded revenue of R$ 3.1 million, the same result recorded in 2Q23.

When comparing with 2Q23, it was found that the variation was due to the increase in financial revenues, driven by the growth in interest received and the active exchange rate variation. Furthermore, there was a reduction in financial expenses which contributed to revenue growth.

At the end of 2Q24, the Company had a solid financial situation. On June 30th, 2024, the cash position was liquid, meaning that its available assets, equivalents and short- and long-term financial investments exceeded its liabilities represented by short- and long-term loans and financing. The net cash position balance on that date was R$ 63.1 million, indicating a positive and healthy financial position.

The reduction in net debt was mainly due to the excellent operating cash generation in the period.

On slide 14 we have net profit and Adjusted ROIC

In 2Q24, net profit reached R$ 139.7 million, an increase of 0.5% compared to 2Q23. The net margin reached 18.4%, which corresponds to a drop of 0.8 percentage points compared to 2Q23.

It is important to highlight that in 2Q24, Net Profit was negatively impacted by R$ 10.8 million and the net margin by 1.2 p.p due to the implementation of the measures imposed by Law No. 14,789. Disregarding the effects of such measures, net profit would be R$ 150.5 million and a net margin of 19.6%.

Additionally, in 2Q23 some non-recurring events influenced the Company's Net Profit. In the comparison of Recurrent Net Profit, the result for 2Q24 was R$ 139.7 million, an increase of 4.4% compared to 2Q23. The recurring net margin decreased by 0.1 p.p., reaching 18.4% in 2Q24.

Net profit for 6M24 was R$ 228.5 million, 2.7% higher than the result obtained in the same period of the previous year. The net margin in the comparison of 6M24 versus 6M23 showed a reduction of 0.4 p.p. reaching 16.8% in this quarter.

When comparing recurring net profit, growth in 6M24 was 5.1%, reaching R$ 228.5 million with a 16.8% recurring net margin, the same obtained in 6M23.

The annualized adjusted ROIC reached 27.8% in 2Q24, a reduction of 0.6 p.p. on the result of 28.4% obtained on 12/31/2023.

Let's move on to Slide 15 where we will comment on EBITDA.

In 2Q24, EBITDA reached R$ 175.4 million, representing an increase of 3.5%. The EBITDA Margin reached 23.0% in 2Q24.

It is worth noting that Ebitda in 2Q24 was negatively impacted by R$ 3.5 million and the Ebitda Margin by 0.3 p.p due to the implementation of the measures imposed by Law No. 14,789. Disregarding the effects of such measures, EBITDA would be R$ 178.9 million and EBITDA margin of 23.3%.

Additionally, in 2Q23, a non-recurring event influenced the Company's EBITDA. Comparing recurring EBITDA, the result obtained in 2Q24 was R$ 175.4 million, with growth of 4.0%. The recurring EBITDA margin when comparing 2Q24 versus 2Q23 was reduced by 0.3 p.p., reaching 23.0% in 2Q24.

EBITDA for 6M24 was R$ 297.8 million, 4.0% higher than the result for the same period of the previous year. The EBITDA margin when comparing the semesters was reduced by 0.2 p.p., reaching 21.9% in 6M24.

When comparing Recurrent EBITDA, growth in 6M24 was 4.3% when compared to that obtained in the same period of the previous year. The recurring EBITDA margin in the comparison of 6M24 versus 6M23 was reduced by 0.2 p.p., reaching 21.9% in 6M24.

Moving on to slide 16, we will talk about CAPEX.

In 2Q24, the Company made investments totaling R$ 35.9 million in fixed and intangible assets, recording a reduction of 2.7% compared to the amount invested in the same period in 2023.

Moving now to slide 17, to talk about Cash Flow

We ended 2Q24 with R$ 438.1 million in cash. The net cash position balance on that date was R$ 63.1 million, indicating a positive and healthy financial position. Our financial leverage is comfortable and allows us to take advantage of growth and investment opportunities responsibly, preserving our debt repayment capacity and facing market challenges with confidence. We are committed to maintaining this solid financial position to support our sustainable growth and add value to our shareholders.

These events combined resulted in a positive cash variation of R$ 63.6 million, essentially consisting of an EBITDA of R$ 297.8 million, a Follow-On Capital Increase/Stock Options of R$ 490.2 and a Variation between Assets/ Long-term liabilities of R$ 67.0 million, an increase in the need for working capital of R$ 16.9 million, a decrease in bank liabilities of R$ 62.8 million, investments in fixed assets and intangible assets of R$ 64 .9 million and Dividends paid of R$ 613.0 million.

We conclude our presentation and open the door for questions.

Question and Answear

Operator:

We will now start the question and answer session for investors and analysts. Participants can submit questions in writing using the Q&A tool at the bottom of the screen.

To ask questions by audio, simply click on the "Raise your hand" button. When your name is called,

Victor Rogatis, Itaú BBA:

Good morning. Thanks for taking my questions. I have two. First, you have maintained a consistent discourse that all surplus cash, if there is no relevant project, should be distributed as dividends. So, my first question is this: does it make sense to imagine that in 4Q24 there is a possibility of you distributing more than R$102 million, which is basically R$34 million? Thinking about the last quarter, it would be around R$102 million in the quarter. That's my first question.

And my second question is: when we think about the volume for the upcoming quarters, does it make sense to expect that sports footwear should start to grow again, given that the comparison base becomes a bit less challenging in the 3Q and 4Q compared to the 2Q now? And when we look at apparel and accessories, now thinking about prices, last year there was a strong price increase over the quarters, and this year we've seen a decline in this product category. I would like to understand if this drop is more related to a slightly more aggressive market dynamic or if it might be a perception that the price adjustment made last year might have been a bit too strong. Thanks.

Wagner Dantas:

Rogatis, thanks for the questions. I was taking notes here to make sure I wouldn't leave any behind. First, regarding dividends, Vulcabras has been very consistent in its messaging quarter after quarter, in fact, for several years now. We've been very clear in recent years that we won't be hoarding cash, that our goal is to maintain an unleveraged balance sheet. However, we have no intention of carrying a disproportionate amount of significant net cash.

The commitment we made now to the payment of monthly dividends aligns with this. Despite being a recurring, constant, and significant commitment, these amounts are quite relevant; compared to the accumulated profit of the last 12 months, we're talking about a period exceeding 80%. If we annualize, and we will annualize these monthly payments, we're talking about R$1.50 per share, which, based on an average share price in July that was around R$15, we're talking about a dividend yield of over 10%, and it's still below our cash generation.

So, I think what can be expected is that, with a relevant net cash surplus, we should indeed return to making extraordinary distributions. The amount, the figure, will depend heavily on cash generation, on how it unfolds, and also on the need for cash, whether for organic growth or inorganic growth.

I want to take this opportunity to make it clear, and we tried to make it clear in the message from management, but I'll emphasize here that this regular commitment to monthly payments of a dividend that is quite significant does not decapitalize the Company; it does not leave the Company's balance sheet inappropriate to absorb new businesses.

We acquired the Under Armour operation five years ago with our own cash generation. We also acquired the Mizuno operation with our own cash generation. The businesses we study are businesses that our balance sheet is fully capable of absorbing. We remain net cash positive even with this dividend distribution.

We are indeed willing to take on some leverage if any movement is a bit more significant, while still maintaining our distribution commitments. So, Vulcabras' balance sheet today, even with these commitments, allows us to continue pursuing an inorganic growth agenda, continuing to seek new deals. We have the financial conditions to strike any deal. We're just not going to strike any deal at any price.

So, we remain very disciplined, true to our culture of being great capital allocators, and the balance sheet accommodates this very well. It was a decision that was thoroughly discussed with the Board, with the Management; it was carefully thought out. After all, it's a significant commitment we've taken on.

Before moving on to the second point, I don't know, Pedro, if you have anything to add. It's an important question, and I think it's a very relevant topic within our disclosure.

Pedro Bartelle:

First, good morning, everyone. Thank you for the questions, Victor. I think you've covered it very well. I'll answer the second question. Due to seasonality, the 2H is better. Our portfolios show a good number of orders already for the 2H.

Regardless, sports footwear tends to grow, not only because of an improvement within Vulcabras, but also because of investments that Vulcabras has made in new categories.

We actually started last year, but we've been implementing a whole soccer strategy and also developing cleats made in Brazil, which has led to growth in our volumes in a category where we didn't previously operate, and it will have years of growth ahead, including with models created in Brazil, adapted to Brazil, which is where we consider ourselves quite specialized.

And already mature, but still growing significantly, is the Corre line from Olympikus, which, besides launching the Supra, this Brazilian super shoe priced at R$1,800, has been expanding its collection. And we, who have always been democratizers of sports in Brazil, are now democratizing high performance. This line is growing significantly; it already represents 15% of Olympikus' revenue, but it will grow even more.

So, we're investing in other product categories. The 2024 market has proven to be a bit more challenging. I think, due to political and economic uncertainties, we see our clients being a bit more cautious, but Vulcabras is doing its part, investing in new categories, and that's why it's growing.

Although, at this moment, we are very focused on improving and maintaining our margins and our results, which have proven to be some of the best in the sector.

Wagner Dantas:

And the last question, if I got it correctly here, is about the average price of apparel and accessories, which fell here in 2Q23, from R$40 to R$38 in the average price. The fact here, Rogatis, is that we don't perceive that the price adjustments or increases were disproportionate. In fact, it's not the price itself, but it was much more a mix effect, where socks are included in this category, and as this subcategory evolves, its average price ends up distorting things a bit, which explains this small drop from R$40 to R$38. But I think the important thing, which breaks a bit of the trend we've seen in recent quarters, is that apparel and accessories as a whole are growing. And I think it's growing a lot due to a strategy leveraged in DTC. By going directly to the consumer, we overcame a challenge we faced in selling apparel and accessories in the wholesale channel, the multi-brand retail, where we already know there's a restriction in the number of available doors, a restriction in the average price, in the assortment we can present.

When we go directly to the consumer, whether through e-commerce or stores, we're able to convert, we're able to work better on this journey and be more assertive. So, e-commerce was the one that drove this evolution, that broke this inertia, this challenge that apparel and accessories were facing. We've started to grow again, and it's becoming, in fact, a fundamental channel for the strategy of this category.

Eric Huang, Santander:

Good morning. Thank you for taking our questions. On our side, we also have two. The first, looking at footwear prices, we've seen growth when we look at the year-over-year view. I think it's much more about understanding if there was any specific product or something that drove prices up a bit more, thinking about an increase mostly due to a mix issue.

And also understanding a bit of what can be expected going forward. Thinking that this penetration, especially Corre, these other launches coming a bit stronger could help sustain a slightly higher price level. And also, I think in this price point, if any brand eventually stands out a bit more. A Mizuno, an Under Armour with a slightly higher ticket, there’s much more to think about regarding this dynamic moving forward.

And the other one, going back to e-commerce. We've seen the growing contribution in recent quarters, coming in at a very strong level, much more to understand what you expect going forward in terms of potential penetration and I think even more importantly, on the expense side. We've seen a significant gain in gross margin, but on the other hand, it brings some pressure on expenses. It's more to understand when, perhaps, we might start seeing e-commerce reaching a volume where, thinking about EBITDA margin level, it also comes with a bit more leverage. Thanks.

Pedro Bartelle:

Wagner, I'll start here. Thank you, Eric, for the questions. Our average footwear price has been rising. We've made some minor adjustments over the past year. We had a significant, exaggerated increase in raw material costs post-pandemic. We've managed to recover part of it. Now, at least, costs have stabilized a bit.

Our prices are rising, they have a tendency to go up because we've been investing heavily in new product categories as well. Under Armour and Mizuno have higher average prices than Olympikus, but Olympikus is now working in high performance, the Corre line, which already represents 15% of the revenue, will push Olympikus' average price even higher.

Regarding the represented brands, the international ones have a higher average price. Olympikus is more democratizing, operating in almost monopolistic price ranges at the lower part of the pyramid, where you have access to a branded sports product, but Olympikus has been gaining ground, raising its average price.

So, we can expect a trend of increasing prices. This is a trend that, if we look at the past few years, has only been growing.

In e-commerce, I think it's important to mention that our e-commerce serves several functions. One of them is to discipline the market. We have a profitable e-commerce, a lucrative e-commerce. Through our e-commerce, we show that it is possible to sell collections at the correct prices and have sales only at the correct times, at the end of the collection.

But we've been facing in Brazil, and this also influences the average price a bit, still a lot of stock. We don't expect there won't be big sales in Brazil, but importers always end up overshooting their imports and end up with large quantities, not generating good results. This is a maxim we've been dealing with, and we even budget for sales to happen. If they don't, it will improve. It will improve our average price and improve our results, which we already consider quite good.

But e-commerce has this role of disciplining the market because it preserves healthy product prices, it is profitable, and it has a very important complementary positioning.

Brazil lacks channels to sell clothing and accessories. We have a tradition of selling, including most sneakers in shoe stores, or even in sports stores, and many of them don't sell clothing and accessories. For example, World Tenis, a very good chain of stores in Brazil, but it doesn’t sell clothing and accessories.

So, e-commerce has become a very important channel for us to implement our clothing and accessories strategy. We've had some difficulties in recent months because some of our customers, heavily stocked, reduced their clothing purchases, and we replaced that in our own e-commerce. I believe that from now on it will stabilize, but our e-commerce tends to grow. Our direct sales to consumers will grow.

Wagner Dantas:

Pedro, if I may add to the e-commerce point, I think there's something fundamental, which is that we manage e-commerce not as a retailer, but as a brand manager.

So, the issue of complementarity, beyond categories, also extends to premium stories, more technological footwear, and also more technological clothing that we can offer to consumers that we wouldn't be able to reach in multi-brand retail.

That said, its growth continues on an exponential curve. With these growth percentages, it's natural to assume it's still far from its mature size, but we won't force unsustainable growth at the expense of margins. I think that's an important statement to make here.

Regarding SG&A, indeed, in this e-commerce ramp-up curve, we're experiencing a structural change in variable sales expenses. There is a mix effect of channels; commission, advertising, and freight in e-commerce, as a percentage of revenue, are significantly higher than the traditional, which would be a standard percentage assumed in a wholesale operation.

But the fact is that although the EBITDA margin of e-commerce is still not comparable to the company's consolidated margin, it is scaling up. The channel grew 73% quarter over quarter. This growth is making this EBITDA margin, although lower, not become a deflator. There is compensation happening.

So much so that the company's consolidated EBITDA doesn't fall. Last year, recurring EBITDA was 23.3%, and we closed this at 23%. We are managing to maintain it at a similar level, despite growing rapidly. Even though e-commerce, which last year represented 7.9% of total revenue, now represents 13%.

So, it's starting to become truly significant. It brings with it, structurally, a higher gross margin, since we sell directly to the consumer, it also carries higher SG&A, but this EBITDA is scaling along with the channel's growth.

So, I think the great news is that it is not a deflator of the EBITDA margin, and in absolute value, it is super accretive, it's a very welcome operating profit since it's a percentage on a direct-to-consumer POS, so we capture the entire margin of the chain.

We expect this scaling, and the growth, to still take some time to reach its mature size within this complementarity strategy, without burning the margin, while we also expect to gain SG&A scale economies in the same Extrema structure, the same team, the same systems, increasingly becoming more efficient. This is what we've been doing in recent quarters, and it's how we project the evolution for the coming quarters.

Renato Luiz (via webcast):

What will be the dividend policy for the coming years?

Wagner Dantas:

Renato, first, thank you for the question. I think I partially covered this question in my answer to Victor Rogatis' question, but I'll reinforce it here. We've now committed to a very significant dividend, with a monthly recurrence. We've positioned Vulcabras as one of the largest dividend payers in the sector, with a very relevant dividend yield, with a very significant payout.

But this commitment, despite being very significant, still does not fully consume the company's cash generation. So, I'll reinforce here the message we've been carrying over the past few years: we will not maintain an extremely significant net cash position. We strategically want to keep the balance sheet deleveraged so that we can react quickly to any market changes, or so that we can absorb the right opportunities when they arise. And yes, with this cash generation exceeding this distribution, even being significant, I think it creates an expectation of possible extraordinary dividends.

Elias Júnior (via webcast):

Good morning. In the management's opinion, what is Vulcabras' differentiator that makes customers choose the company's products?

Pedro Bartelle:

Thank you for the question, Elias. Vulcabras is a 70-year-old company, with many years of experience in sports. It specialized, and in the last three years, focused on sports. It also had a women's footwear sector, Azaleia itself, which was licensed.

I believe that we, through our Technology Development Center, which is the largest in Latin America for footwear, where we have all the systems, all the machinery, prototype machines, a development intelligence equal to any other brand in the world, and also world-class factories, our factories are on par with any factory that produces any sports brand in the world.

So, we have systems, we have development centers, we have factories, and we have very good and qualified labor. The only somewhat controversial issue, which we can leave for another day, is our competition with the Asians, where the Asians have different costs and subsidies than Brazil, lower costs. But we, in fact, have proven through Abicalçados that we are more productive than the Asians.

That said, and as a 70-year-old company, we believe we have an excellent market understanding. We know what the Brazilian consumer wants, and we have been developing products adapted to the Brazilian consumer with great competence.

So, we can deliver an excellent product. We undoubtedly have, if not the best, one of the best cost-benefit ratios on the market. Our products truly deliver a lot of sports technology for the price we charge.

And we proved this with the Corre collection from Olympikus, which has been expanding and now has several models. For example, at the São Paulo International Marathon, sponsored by us this year, we do a check-out at the end of the marathon, counting how many models of each brand crossed the finish line. We usually were third or fourth with Olympikus, and this year, a pleasant surprise, we were the brand that crossed the finish line the most. It was the most used product at the São Paulo International Marathon.

As if that wasn’t enough, on the Strava app, the most important running app in the world, runners put their running stats, where they ran, what time they made, and they also put the shoes they were wearing. And the Strava app approached us to say that the most used footwear in Brazil is Olympikus.

So, this 15% of Olympikus in high performance has already become, in fact, a promising business, a business that is already significant within the brand's revenue, and has been driving the company forward.

So, I think the products speak for themselves, their quality. And there’s also something that makes us very happy, which is public opinion. We see that Olympikus products have been winning over public opinion, winning over the running community, and it’s nice to see that they are defending a Brazilian brand, a national brand.

This is also a trend that has been happening worldwide. Some smaller brands have become relevant and have even bothered the two or three biggest brands in the world a bit. I, with all modesty, consider that Olympikus is one of them. It’s more focused on South America, more focused on Brazil, but it's one that has been performing very well, has been managing to be a good and important option in the market.

Wagner Dantas:

Perfect. There is a point here that may raise doubts within our announcement, and I think it is important to emphasize and try to clarify the purpose a bit because we ended up not discussing it, and it wasn’t brought up in the questions, which is the share buyback plan.

The buyback plan is also a tool, also an instrument that the company has at its disposal to seek, within its culture of being a great capital allocator, to reward its shareholders, always looking for investments that can bring very attractive returns.

The fact is that Vulcabras shares have been trading at values quite distant from what we consider fair values. We have used almost half of the buyback plan that was approved, and we submitted a proposal to the Board for an extension so that there would be no restriction in case we decide to invest this capital in our own shares.

It’s not something that has a set deadline to be fulfilled. I think we look at it in a very opportunistic way, as we see a great asset. We know the company, we understand that the company has strong cash generation, has resilient, consistent, and evolving results.

The company has a relevant organic growth agenda and is also pursuing inorganic growth. And at times when the market trades the stock at quite opportunistic values, we do want to have the freedom to invest in our own shares, believing that this can also be a great way to maximize value generation for shareholders.

Cristiano Eusébio Martins (via webcast):

What are the challenges related to distribution logistics for brand growth?

Pedro Bartelle:

I would say few. Our distribution is very good. We have a lot of experience in this, distribution from our own factories. What we weren't experts in was e-commerce, but we set up a distribution center in Extrema that has performed very well. We are increasing its size by 30%, which easily allows us to double the size within that site. It has 11,500 square meters of distribution, with super modern systems. Last year, we won an award as the best footwear e-commerce in Brazil with Mizuno's e-commerce.

So, we have also become a distributor through our e-commerce. Our distribution via e-commerce has been very fast, especially in São Paulo, both in the capital and the state. And we face the problems of Brazil, the problems with Brazilian roads, but those have always been dealt with and have not caused us any issues.

This is a point that we do not see as a concern for growth. Distribution, inventory management, and systems are things that we have very well under control.

Wagner Dantas:

Just to add a bit, Pedro, on the issue of unlocking value for Under Armour, a brand that has great strength in apparel, a brand that was born from apparel, and the challenge we have in multi-brand retail, we are evolving a lot through e-commerce, but we also believe that stores could be an avenue for growth, where we could showcase, consumers could attest to technology, quality, and we could significantly enhance the consumer experience.

Pedro Bartelle:

I think it's a trend to have mono-brand stores. We've already talked about this, it's a topic that is being addressed by us, especially to better showcase our products, to better tell the whole story.

And it's really a problem in Brazil because we have few stores that display the entire collection. So, by having mono-brand stores in Brazil, we will be able to expand primarily the collection of apparel and accessories. But we have been able to achieve good distribution through e-commerce, and it is growing. It grew by more than 70% in the last quarter.

Operator:

There being no further questions, I would like to give the floor to Mr. Pedro for the final remarks.

Pedro Bartelle:

Thanks everyone for the attention. As closing remarks, I would like to highlight that we have been growing consecutively for 16 quarters. We have been presenting growing results. Our results are among the best, if not the best in the sector. Our goal here is to generate value for our shareholders, now with a bit more predictability and more relevance in dividend payments.

We've already talked a bit about the value of our shares, the buyback, which we also consider a way to generate better value for our shareholders at this time.

All these actions by Vulcabras do not compromise the organic and inorganic growth agenda. We are a great cash generator. We have made two deals in recent years, both Under Armour and Mizuno, with our cash generation. So, we are attentive to new deals. There is room for new deals at Vulcabras, yes. Vulcabras only makes great deals.

So, we have the possibility of growing inorganically without problems, with this greater distribution and a greater commitment to dividend distribution.

So, thank you. I leave our IR team at your disposal to answer any other questions. Thank you very much.

Wagner Dantas:

Thanks.

Operator:

The Vulcabras videoconference is closed. We appreciate everyone's participation, and wish you a great day.